

# HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: SEPTEMBER 9, 2020

**REGARDING: RESOLUTION AUTHORIZING AND APPROVING A LOAN OF UP TO \$2,000,000 IN HOME FUNDS, AND AUTHORIZATION TO ENTER INTO A HOME LOAN AGREEMENT AND THE EXECUTION OF OTHER RELATED DOCUMENTS FOR THE PARKWAY APARTMENTS PROJECT LOCATED AT 1428 EAST 7<sup>th</sup> STREET; DISTRICT 2, WARD 7**

## **Requested Board Action**

Action on two separate HRA Board resolutions pertaining to the Parkway Apartments project (the “Project”). The first resolution will authorize issuance of Conduit Multifamily Housing Revenue Bonds, and the second will authorize a HOME loan in an amount up to \$2,000,000 to The Parkway Limited Partnership and the execution of a Loan Agreement and other related documents with The Parkway Limited Partnership (the “Developer”).

This report and the accompanying Resolution request:

1. Approval of a HOME loan in an amount up to \$2,000,000.
2. Authorization for the Executive Director to finalize the Loan Agreement and all other related documents for execution by the appropriate HRA Officers in connection with the Parkway Apartments project.

## **Background**

The Parkway Limited Partnership is planning to acquire a parcel located at 1428 East 7<sup>th</sup> Street (the “Property”). The site measures approximately 1.34 acres. The proposal by the Developer includes construction of a four-story building with 60 housing units, 32 underground and 30 surface parking spaces. The proposed housing will consist of 9 one-bedroom, 19 two-bedroom units, and 32 three-bedroom units.

The sixty (60) housing units will be affordable to households as follows:

Size and Income /Rent Limits of Units:

<u>Size</u>	<u># of units</u>	<u>Gross Rent</u>	<u>Rent and Income Limits</u>
1 BR	6	\$750	40%
1 BR	1	\$915	50%
1 BR	2	\$1,193	60%
2 BR	4	\$900	40%
2 BR	5	\$1,125	50%
2 BR	10	\$1,350	60%
3 BR	10	\$1,650	30% (Project Based Vouchers)
3 BR	4	\$1,300	50%
3 BR	<u>18</u>	\$1,560	60%
Total	60		

The Developer is experienced in the construction and management of multifamily housing projects within the metropolitan area.

The Property is zoned RM-2 & RM-1 (Multi Family Housing). The Developer is currently requesting a rezoning of the Property all into RM-2 to remove the split zoning on the parcel. The rezoning has already passed the Planning Commission and should be on the City Council agenda shortly. The proposed Project use is a permitted in both RM districts. See attached **Map**/Address of the Property, and attached **demographic profile** of District 2, the Saint Paul Planning District in which the Project is located. No businesses will be displaced, and no land acquisition took place as a result of eminent domain.

**Budget Action**

If this Resolution is approved today there will be \$4,103,925.74 of HOME funds that remain uncommitted. This balance of uncommitted funds includes 2020 grant funds.

The HOME program loan will be subject to a budget action at the City Council.

**Future Action:**

None

**Financing Structure**

The Developer has proposed the following permanent sources and uses to complete the Project. The Developer is seeking HRA issued Multifamily Housing Revenue Bonds with automatic 4% Low Income Housing Tax Credits (LIHTC) and HOME funds.

<u>SOURCES</u>		<u>USES</u>	
First Mortgage	\$10,262,000	Acquisition	\$ 600,000
LIHTC Equity (4%)	\$ 5,831,797	Construction	\$13,107,376
Deferred Developer Fee	\$ 444,693	Professional Fees	\$ 1,046,570
HOME Deferred Loan	\$ 2,000,000	Financing Costs	\$ 1,394,364
Met Council Grant	\$ 30,000	Developer Fee	\$ 2,000,000
Sales Tax Refund	<u>\$ 15,000</u>	Replacement Reserves	<u>\$ 435,180</u>
TOTAL	\$18,583,490		\$18,583,490

Multifamily Housing Revenue Note and 4% LIHTC

On August 26, 2020, the City Council conducted a public hearing and authorized preliminary approval for the HRA to issue a tax-exempt conduit multifamily housing revenue bond for the Project (RES PH 20-179). The developer has requested that the HRA issue a maximum of \$12,000,000 in tax exempt conduit multifamily revenue bonds. Of that amount, not more than the lesser of \$8,910,000 or 53% of the borrower’s basis in the project will be volume cap 4% bonds. The \$8,910,000 volume cap bonds will generate approximately \$5,831,787 in Low Income Housing Tax Credit (LIHTC) equity. The developer has requested that the HRA issue additional tax-exempt bonds, not subject to volume cap, provided that the total amount of the bonds does not exceed \$12,000,000. The additional bonds are available from repayment of prior HRA-issued bonds and do not generate tax credits. The Bonds will be sold through a private placement with Bridgewater Bank.

### Low Income Tax Credits (LIHTC)

The 4% LIHTC are to be purchased by NDC Corporate Equity Fund XVI, L.P. for \$0.885 per dollar and 7-Bush, LLC will become the Limited Partner.

### \$2,000,000 HOME Loan

The HOME loan in an amount up to \$2,000,000 will be structured as a cash flow Note with a term of 40 years and a 1% interest rate. This loan will be in second position behind the first lender's \$10,262,000 loan.

### Deferred Developer Fee

In order to maximize the amount of tax credit equity, the Developer is requesting a Developer fee of \$2,000,000. This fee is within the City's Developer Fee Guidelines; it will be included as part of the project costs eligible for tax credits. A portion of the Developer Fee of \$444,693 will be deferred and paid over a period of up to 10 years through excess cash flow as it is available after operating expenses and debt service on the first mortgage.

### **PED Credit Committee Review**

On September 1, 2020, the Credit Committee reviewed the proposed Multifamily Housing Revenue Bonds and the HOME loan. The Credit Committee approved the Bond assistance as consistent with PED Bond policies. The Credit Committee also approved of the terms of the \$2,000,000 HOME loan being risk rated as "Originated as a Loss".

### **Compliance**

The Parkway Limited Partnership has signed the compliance letters regarding the Project. The Project will comply with the following programs and/or requirements: Vendor Outreach Program, Affirmative Action, Federal and State Labor Standards, Project Labor Agreement, Sustainable Green Policy, HUD Section 3, Affirmative Fair Housing Marketing Plan and Two Bid Policy. The Project is exempt from the following: Business Subsidy based on development of housing; Living Wage based on the number of employees.

### **Green/Sustainable Development**

The project will comply with the Saint Paul Sustainable Building Ordinance.

### **Environmental Impact Disclosure**

An Environmental Review indicated “No Significant Impact”, which was published on May 23, 2020 in the Pioneer Press.

### **Historic Preservation**

This project will not require Heritage Preservation Commission review. However, a HUD 106 review was completed. There are no impacts to historic resources.

### **Public Purpose/Comprehensive Plan Conformance**

The proposed Project at the Property is consistent with the 2030 and pending 2040 Comprehensive Plans. The 2030 Plan promotes multiple types of housing for people of all ages (LU1.40 and LU1.41) and development that supports walking and the use of public transportation (LU1.42). The 2040 Comprehensive Plan, which was approved by City Council in June of 2019, but has not yet been adopted, encourages transit-supportive density and the development of growth near transit (LU-1). It also calls for medium-density housing that diversifies housing options (LU-34) and directs multi-family housing to be located along arterial and collector streets to leverage the use of public transportation (LU-35). The Project is also consistent with the Greater East Side (District 2) Community Plan, which identifies this specific area as a location for higher density housing development (LU1d).

### 2030 and pending 2040 Comprehensive Plan future land use designation

The 2030 Comprehensive Plan identifies the future land use of the area as Industrial. However, that was written when Cemstone occupied a parcel to the east which was zoned I1 industrial. The Cemstone site has since been rezoned to T1 traditional neighborhood and is now occupied by a school. Industrial zoning and uses here would be inconsistent with surrounding development and zoning. Future land use designation informs changes to land use, which in this case would not occur since the entirety of the parcel is currently zoned multi-family residential.

Additionally, multi-family residential use is permitted in industrial zoning districts as part of mixed residential and commercial use, so is not inherently inconsistent with industrial land use.

The 2040 Comprehensive Plan designates the future land use of the parcel as Urban Neighborhood: “Urban Neighborhoods are primarily residential areas with a range of housing types. Single family homes and duplexes are most common, although multi-family housing predominates along arterial and collector streets, particularly those with transit.” The proposed Project would continue to allow multi-family housing on a collector street with transit and is therefore consistent with the future land use designation of the 2040 Comprehensive Plan.

#### 2030 Comprehensive Plan

LU1.40. Promote the development of housing that provides choices for people of all ages, including singles and young couples, families, empty-nesters, and seniors.

LU1.41. Promote the development of a range of housing types and housing values in each of the 17 planning districts.

LU1.42. Promote the development of housing in mixed-use neighborhoods that supports walking and the use of public transportation.

#### 2040 Comprehensive Plan (Approved by the City Council in June of 2019, but not yet adopted)

Policy LU-1. Encourage transit-supportive density and direct the majority of growth to areas with the highest existing or planned transit capacity.

Policy LU-34. Provide for medium-density housing that diversifies housing options, such as townhouses, courtyard apartments and smaller multi-family developments, compatible with the general scale of Urban Neighborhoods.

Policy LU-35. Provide for multi-family housing along arterial and collector streets, and in employment centers to facilitate walking and leverage the use of public transportation.

#### Greater East Side (D2) Community Plan (an addendum to the 2030 Comprehensive Plan)

LU1. Development Opportunities. Promote higher density, mixed-use development in targeted business areas.

LU1d. Collaborate with District 2 to identify redevelopment sites for either mixed use or housing development. Possible sites include: state-owned property on York Avenue between Clarence Street and Birmingham Street; East 7th Street between Parkway School and Hazelwood Street; vacant land, also known as the Cemstone site, north of Minnehaha Avenue; the 3M distribution center; and on vacant land between Case Avenue and the railroad tracks, west of White Bear Avenue.

**Recommendation:**

The Executive Director recommends approval of the attached Resolution which approves the following actions:

1. Authorize a HOME Loan in an amount up to \$2,000,000, subject to City Council budget action.
2. Authorizing the Executive Director to finalize the Loan Agreement and all other related documents for execution by the appropriate HRA Officers in connection with the Parkway Apartments project.

**Sponsored by:** Commissioner Prince

**Staff:** Report prepared by: Daniel K. Bayers, (266-6685)  
Jenny Wolfe (266-6680)

**Attachments**

- Map
- District 2 Profile